

PUBLIC DISCLOSURE

July 14, 2010

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**GATEWAY FUNDING DIVERSIFIED MORTGAGE SERVICES, LP
MC3052 et al**

**300 WELSH ROAD, BUILDING 5
HORSHAM, PA 19044**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.</p>
--

GENERAL INFORMATION

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' ("Division") regulation 209 CMR 54.00, Mortgage Lender Community Investment ("MLCI"), require the Division to use its authority when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess the mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the MLCI performance of **Gateway Funding Diversified Mortgage Services, LP ("Gateway")** prepared by the Division, the mortgage lender's supervisory agency, as of **July 14, 2010**.

SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures as defined by MLCI. A review of the Division's records, as well as the mortgage lender's public MLCI file, did not reveal any complaints relating to Gateway's MLCI performance.

The MLCI examination included a comprehensive review and analysis, as applicable, of Gateway's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner, as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth.

MLCI examination procedures were used to evaluate Gateway's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Gateway's lending and community development activities for the period of January 2008 through December 2009. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the mortgage lender's community investment performance pursuant to the following five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

Home mortgage lending for 2008 and 2009 is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow tables. Comparative analysis of the mortgage lender's lending performance for the year of 2008 and 2009 is provided as 2008 was the most recent year for which aggregate HMDA lending data was available and 2009 data became available prior to issuance of the evaluation. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders which originated loans in the Commonwealth of Massachusetts.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the MLCI examination also reflects an in depth review of the entity's mortgage lending using qualitative analysis, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

The Service Test evaluates the mortgage lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes.

MORTGAGE LENDER'S MLCI RATING:

This mortgage lender is rated "Satisfactory"

- The geographic distribution of the lender's loans reflects an adequate dispersion in low- and moderate-income census tracts as it is reflective of the distribution of owner occupied housing in those census tracts.
- The distribution of loans by borrower income reflects, given the demographics of Massachusetts, an adequate record of serving the credit need among individuals of different income levels, including low- and moderate-income.
- Gateway offers innovative and flexible lending practices in a safe and sound manner to address the mortgage credit needs of low- and moderate-income individuals or geographies, including loans and other products to assist delinquent home mortgage borrowers remain in their homes.
- Gateway's fair lending policies and practices are considered adequate.
- The mortgage lender has a minimal number of verifiable Community Development Services.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Gateway Funding Diversified Mortgage Service, LP was established in 1994 as a Pennsylvania limited partnership for the purpose of operating as a mortgage lender and mortgage broker. Bruno Pasceri is the Chief Executive Officer of Gateway Funding. Michael A. Karp, owns 99% of the company and the remaining 1% ownership is with Gateway Funding, Inc. Gateway's main head quarters are located in Horsham, Pennsylvania. while operations are maintained in fifteen states. Gateway first became licensed by the Commonwealth of Massachusetts in 2003. The lender has 2 licensed Massachusetts locations on East Central Street in Franklin and on Trenel Road in Gloucester. The Franklin branch office is responsible for originations, processing, underwriting and closing. Closed loans are funded through the available line of credit and sold to the secondary market. In 2008, Gateway closed 6 Massachusetts licensed locations in Beverly, Burlington, Buzzards Bay, Duxbury, Norfolk, and Haverhill.

Demographic Information

The MLCI regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth of Massachusetts. Demographic data is provided below to offer contextual overviews of economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

DEMOGRAPHIC INFORMATION*						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A
Geographies (Census Tracts)	1,361	8.4	21.7	46.1	23.4	0.4
Population by Geography	6,349,097	5.8	20.5	47.6	26.0	0.1
Owner-Occupied Housing by Geography	1,508,248	1.6	12.8	54.0	31.6	0.0
Family Distribution by Income Level	1,587,537	20.5	17.7	22.3	39.5	0.0
Distribution of Low and Moderate Income Families throughout AA Geographies	606,419	10.0	29.4	46.2	14.4	0.0
Median Family Income		\$65,318	Median Housing Value		\$209,519	
2009 HUD Adjusted Median Family Income		\$82,684	Unemployment Rate		9.3%**	
Households Below Poverty Level		9.8%				

*Source: PCI Corporation Inc., CRA Wiz, Data Source: 2000 US Census

**as of 2/10

Based on 2000 Census data, the Commonwealth of Massachusetts has a total population of just over 6.3 million people and a total of 2.6 million housing units. Of the total housing units, 1.5 million or 57.5 percent are owner-occupied, 935,332 or 35.7 percent are rental-occupied, and 6.8 percent are vacant units.

There are 2.4 million households in the Commonwealth with a median household income of \$53,686 according to the 2000 Census. Over 40 percent of the households are classified as low- and moderate-income. In addition, 9.8 percent of the total number of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as “families” total slightly over 1.5 million. Of all family households, 20.5 percent are low income, 17.7 percent are moderate income, 22.3 percent are middle income, and 39.5 percent are upper income. The median family income according to the 2000 census was \$65,318. The Housing and Urban Development (“HUD”) adjusted median family income is \$82,684. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contains 1,361 Census tracts. Of these, 114 or 8.4 percent are low-income; 295 or 21.7 percent are moderate-income; 628 or 46.1 percent are middle-income; 319 or 23.4 percent are upper-income; and 5 or 0.4 percent are NA or have no income designation. The five census tracts with no income designation are located in Bridgewater (a correctional facility), Boston (islands in Boston Harbor), Amherst (U MASS campus), Harvard (Fort Devens), and Grafton (Tufts Veterinary School). These Census tracts contain no housing units and will not be included in this evaluation since they provide no lending opportunities.

The median housing value for Massachusetts was \$209,519 according to the 2000 Census. However, recent figures from the Warren Group, publishers of the Banker’s and Tradesman, show the median price for a single-family increased to \$345,000 in 2007 and experienced a drop of 11.6 percent to \$305,000 in 2008. Fluctuating housing values have a direct effect in mortgage affordability and the types of financial products adequate for homeowners and property buyers.

The unemployment rate for the state of Massachusetts as of March 2010 was 9.3 percent, up from 7.7 percent in March 2009. This represents an increase from the end of 2008 when the unemployment rate stood at 6.4 percent. Employment rates would tend to affect a borrower’s ability to remain current on mortgage loan obligations and also correlates to delinquency and default rates.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Gateway's lending performance was rated an overall "Satisfactory". Gateway's lending efforts are rated under five performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of Gateway.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well Gateway is addressing the credit needs throughout the Commonwealth of Massachusetts' low-, moderate-, middle-, and upper-income Census tracts.

The following table presents Gateway's HMDA-reportable loans as well as the 2008 aggregate data (exclusive of Gateway Funding Diversified Mortgage Services, LP). In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

<i>Distribution of HMDA Loans by Income Category of the Census Tract</i>							
<i>Census Tract Income Level</i>	<i>% Total Owner-Occupied Housing Units</i>	<i>Gateway 2008</i>		<i>Aggregate Lending Data (% of #) 2008</i>	<i>Gateway 2009</i>		<i>Aggregate Lending Data (% of #) 2009</i>
		<i>#</i>	<i>%</i>		<i>#</i>	<i>%</i>	
<i>Low</i>	1.6	1	0.5	2.2	1	0.4	1.5
<i>Moderate</i>	12.8	25	11.5	14.2	15	6.1	10.7
<i>Middle</i>	54.0	117	53.9	51.8	137	55.5	50.8
<i>Upper</i>	31.6	74	34.1	31.7	94	38.0	37.0
<i>NA*</i>	0	0	0.0	0.1	0	0.0	.0
<i>Total</i>	100.0	217	100.0	100.0	247	100.0	100.0

Source: 2008 and 2009 HMDA Data and 2000 U.S. Census

The mortgage lender's geographic distribution of loans was more comparable with the distribution of owner occupied housing units in the low-income census tracts for 2008 than with the aggregate's lending in those tracts. This performance remained at this level when compared with the 2009 aggregate lending data.

Gateway's performance is affected by the relatively low level of lending by the mortgage company in each year. To achieve parity with the aggregate, the lender would have had to originate approximately 3 additional loans.

For 2009, the lender showed an increase in overall loan volume. However, there was no change to the lending in low-income Census tracts and a decrease in lending to moderate-income census tracts.

Overall volume is a significant mitigating factor, as is the physical location of the lender's branches. However, based on the above information and the declining trend, the lender has achieved a less than reasonable penetration of Census tracts, specifically those of low- and moderate-income. Therefore, the loan distribution by Census tract does not meet the standards for satisfactory performance.

II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the lender is addressing the credit needs of the Commonwealth's residents.

Gateway achieved an adequate record of serving the mortgage credit needs among borrowers of different income levels based on the areas' demographics and a comparison to aggregate lending data in Massachusetts.

The following table shows HMDA-reportable loans to low-, moderate-, middle- and upper-income borrowers in comparison to the aggregate and the percentage of total families within the Commonwealth in each respective income group.

Distribution of HMDA Loans by Borrower Income							
Median Family Income Level	% of Families	Gateway 2008		Aggregate Lending Data (% of #) 2008	Gateway 2009		Aggregate Lending Data (% of #) 2009
		#	%		#	%	
Low	20.5	9	4.1	5.0	9	3.6	5.1
Moderate	17.7	54	24.9	16.9	58	23.5	16.6
Middle	22.3	79	36.4	23.8	79	32.0	23.7
Upper	39.5	75	34.6	37.9	93	37.7	39.6
NA*	0	0	0.0	16.4	8	3.2	15.0
Total	100.0	217	100.0	100.0	247	100.0	100.0

Source: 2008 & 2009 HMDA Data and 2000 U.S. Census *Income Not Available

Gateway's lending to low- income borrowers was consistent with the performance of the aggregate. Lending to moderate-income borrowers showed a slight increase in number in 2009 and, for both years, exceeded the performance of the aggregate.

Gateway's lending to borrowers of different incomes reflects adequate penetration and meets the standards for satisfactory performance in this criterion.

III. Innovative or Flexible Lending Practices

The institution's innovative and flexible lending practices were evaluated pursuant to the following criteria: (1) the degree to which the loans serve low and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and (2) the success of each product serving low and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

Gateway offers innovative or flexible lending practices in a safe and sound manner to address the mortgage credit needs of low- and moderate-income individuals or geographies, including loans and other products to assist delinquent home mortgage borrowers to be able to remain in their homes;

Gateway is a Direct Endorsed Lender for the Federal Housing Administration (FHA) and the Veterans Administration (VA). FHA and VA products provide competitive interest rates, smaller down payments for low- and moderate-income first-time homebuyers and existing homeowners. In 2008, Gateway originated 145 FHA and VA loans and in 2009 originated 150 FHA and VA loans representing over 50 percent of the lender's volume in both years. Gateway also offers FHA's 203 K loan program, the primary purpose of which is neighborhood revitalization and expansion of homeownership. In 2009, Gateway closed 1 FHA 203 K loan.

Gateway also offers MassHousing products, which include the My Community and the Mass Advantage Programs. The Mass Advantage Program features fixed interest rates below the conventional market, flexible underwriting criteria, low fees and discounted interest rates for low-income borrowers and first-time homebuyers. Further, the My Community loan program through MassHousing offers loan limits as high as \$417,000 with the borrower's income limit up to \$110,700, with no down payment required, and a 30 year fixed rate loan. In 2008 and 2009, Gateway originated 4 MassHousing loans with a total of \$1,058,300 in dollar volume.

IV. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-103 and Regulatory Bulletin 5.3-101. The mortgage lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, interviews with mortgage lender personnel and individual file review.

Gateway has established an adequate record relative to fair lending policies and practices.

Gateway maintains a Fair Lending Compliance and Monitoring Program (Program). Outlined in the in the Program is a description of Gateway's commitment and responsibilities for enforcing fair lending while providing equal impartial treatment to all applicant throughout the loan process.

Mandatory fair lending training is required for all branch managers and originators within 45 days of being hired by Gateway. Loan originators have specific course requirements. Each course requires an examination and certification of completion.

Gateway ensures the accuracy of its HMDA data collection by conducting monthly reviews which entails: loan processors periodically conducting a HMDA Cross Check to compare the initial loan application to the data that is entered into the HMDA software system; a quality control review on a monthly basis to identify potential errors at a branch, originator and processor level; and further review by Gateway's IT Department to ensure accuracy and completeness of information collected on loan applicants, originator compensation and loan pricing.

Gateway ensures regulatory compliance with the Equal Credit Opportunity Act and other applicable federal regulations. The origination department routinely monitors several areas of the loan process which include: collection of government monitoring; notification of action taken; and copies of appraisal reports, disclosures, borrower signatures, and credit denials.

Complaint resolution is handled and documented by the designated Gateway employee with monitoring by the compliance officer. The Division had no complaints related to Fair Lending for the examination period.

In addition to Gateway's internal fair lending monitoring, an outside independent audit company conducts quarterly reviews on Gateway's originated loans and non-originated loans and a data integrity review.

MINORITY APPLICATION FLOW

For 2008 and 2009, Gateway received 724 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 36 or 5.0 percent were received from minority applicants, of which 13 or 86.1 percent resulted in originations. Gateway received 16 or 2.2 percent of HMDA reportable applications from ethnic groups of Hispanic origin within its assessment area of which 8 or 50.0 percent were originated.

The minority population in the Commonwealth is at 18.1 percent. Gateway's performance was compared with that of the aggregate's performance levels for the most recent year that data was available, the year 2008, and the area's demographics. Information relative to 2009 was added as it became available subsequent to the on site portion of the evaluation. The lender received a total of 5.2 percent of its applications from racial minorities, which was lower than the aggregate at 8.4 percent. The lender also received 2.9 percent of its applications from ethnic minorities, falling below the aggregate at 4.7 percent

Refer to the following table for information on the mortgage lender's minority application flow as well as a comparison to the aggregate lenders throughout the Commonwealth of Massachusetts.

MINORITY APPLICATION FLOW								
RACE	Gateway 2008		2008 Aggregate Data		Gateway 2009		2009 Aggregate Data	
	#	%	#	%	#	%	#	%
<i>American Indian/Alaska Native</i>	0	0.0	690	0.2	0	0.0	730	0.2
<i>Asian</i>	5	1.4	11,800	3.5	10	2.6	19,944	4.1
<i>Black/ African American</i>	9	2.6	11,746	3.5	3	0.8	10,024	2.0
<i>Hawaiian/Pac Isl.</i>	0	0.0	641	0.2	1	0.2	554	.1
<i>2 or more Minority</i>	0	0.0	280	0.1	0	0.0	230	.1
<i>Joint Race (White/Minority)</i>	4	1.2	3,197	0.9	4	1.1	4,939	1.0
Total Minority	18	5.2	28,354	8.4	18	4.7	36,421	7.5
<i>White</i>	324	93.4	234,079	69.6	347	92.1	340,923	69.5
<i>Race Not Available</i>	5	1.4	73,903	22.0	12	3.2	112,611	23.0
Total	347	100.0	336,336	100.0	377	100.0	489,955	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	9	2.6	13,244	3.9	4	1.1	11,445	2.3
<i>Not Hispanic or Latino</i>	337	97.1	246,231	73.2	371	98.4	361,096	73.7
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	1	0.3	2,643	0.8	2	0.5	3,653	.8
<i>Ethnicity Not Available</i>	0	0.0	74,218	22.1	0	0.0	113,761	23.2
Total	347	100.0	336,336	100.0	377	100.0	489,955	100.0

Source: PCI Corporation CRA Wiz, Data Source: 2000 U.S. Census Data

Overall, the mortgage lender's performance in this area is considered reasonable.

V. *Loss of Affordable Housing*

This review concentrated on the suitability and sustainability of mortgage loans originated by Gateway by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through local Registries of Deeds and other available sources including public records of foreclosure filings.

An extensive review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units. Further, delinquency rates were found to be consistent with industry averages.

SERVICE TEST

The service test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. In accordance with the Division's regulation 209 CMR 54.23(2), "community development services must benefit the Commonwealth or a broader regional area that include the Commonwealth."

Gateway's performance was determined to be rated as "Needs to Improve" under its Service Test.

Mortgage Lending Services

Gateway generates the majority of its business from repeat customers, referrals and limited print advertisement. The lender's website allows consumers to view loan products available and find a local Gateway mortgage representative. Gateway operates two licensed locations in Massachusetts. The Franklin branch office is situated in a middle-income geography and assists the consumer throughout all steps of the loan process, from application to closing. The Gloucester branch, which is responsible for application in-take and processing, is situated in an upper-income geography.

In 2008, Gateway closed six Massachusetts branch locations in Beverly, Burlington, Buzzards Bay, Duxbury, Norfolk, and Haverhill. The Buzzards Bay, Burlington and Haverhill branch offices were situated in middle-income geographies, the Beverly branch was a moderate-income geography and the Duxbury and Norfolk branches were in upper-income geographies.

Gateway provides servicing on an interim basis to borrowers. For a period of 30-90 days, prior to a loan being sold to an investor, Gateway accepts mortgage payments. Mortgage payments can be sent in the mail with a check, money order or bank check. In addition, Gateway's website allows borrowers to manage their mortgage payments online through a secure site. Gateway does not routinely service mortgage loans, only on an interim basis; therefore, it would not routinely work directly with delinquent borrowers. Therefore, this review did not include an evaluation of loss mitigation and modification efforts as the mortgage lender would not be accountable for such action. However, as described above, lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.

Community Development Services

A community development service is a service that:

- (a) has as its primary purpose community development; and
- (b) is related to the provision of financial services, including technical services

The Commissioner evaluates community development services pursuant to the following criteria:

- (a) the extent to which the mortgage lender provides community development services; and
- (b) the innovativeness and responsiveness of community development services.

Although no record was maintained, the Franklin branch manager indicated that attendance at several education seminars throughout the year, which are held at local real estate offices, was a common practice. It is recognized that this examination is the mortgage lender's first evaluation of this test; however, records would have to be maintained to provide credit under this performance test.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the Mortgage Lender Community Investment (MLCI) regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the MLCI evaluation of their mortgage lender:

- 1) Make its most current MLCI performance evaluation available to the public.
- 2) Provide a copy of its current evaluation to the public, upon request. In connection with this, the mortgage lender is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by the Division of Banks, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its MLCI public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.